

2008/2009 Performance Highlights

Budgeting and Budgetary Control

The 2008/2009 multi-year budget was approved by the council in May 2008. The allocations were as follows:

| EXPENDITURE | BUDGET 2008/2009 | ACTUALS 2008/2009 |
|-------------|------------------|-------------------|
| Operating | 252 495 907 | 267 364 786 |
| Capital | 212 210 638 | 193 827 685 |
| Total | 464 706 545 | 461 192 471 |

Financial Reporting

The 2008/2009 financial statements were submitted in time. The challenge faced as the preparation of GRAP compliant financial statements in house. But the experience attained throughout the process is invaluable. There were significant changes in the accounting policies as a result of the implementation of GRAP standards.

All other reports required in terms of the Division of Revenue Act were submitted in time. The DORA Grants received during the financial year were spent as per the table below. It is noteworthy that there is a substantial decrease in the unspent conditional grants.

Had, the financial years of both National and Provincial spheres been synchronised with the local sphere, the unspent conditional grants would have actually been reduced further. To illustrate an airport grant for 09/10 is transferred by a Provincial department in April 2009 and at 30 June 2009 this amount is then reflected in the municipal financial statements as unspent thus giving an impression that the municipality does not spend its allocated conditional grants.

The DORA grants received during the financial year were spent as follows:

| Grant Name | Grant Purpose | Usage of grant | Amount received | Amount spent |
|------------|--|--------------------------------------|-----------------|--------------|
| FMG | To finance reforms in financial management | Grant was used for intended purposes | 500 000 | 500 000 |
| MIG | To supplement capital finance for basic municipal infrastructure | Grant was used for intended purposes | 146 528 000 | 129 313 170 |

Internal controls were operational and they assisted the municipality to uncover malpractices that were undertaken by a cashier. Most reconciliations were performed monthly.

The council does not suffer any liquidity risk due to the process of closely monitoring cashflow forecasts and avoidance of debt that cannot be serviced.

- Draft fraud prevention plan
- The risk register
- 2008/2009 Internal Audit Plan
- The Municipal Budget and reporting regulations
- Audit Plan
- Annual Report
- Evaluation of the performance of the internal auditors
- ZDM mid-year assessment
- Performance Indicators
- Progress Report on Internal Audit
- Audit report on management performance measurement
- ZDM Investigation

The Audit and Performance Management Committee had 6 meetings during the year to discuss internal audit reports and performance management report. Internal audit covered the following aspect in 2008/2009:

Risk Management

Capital Commitments:
The capital commitments consist of infrastructure assets to the total value of R169,712,909.05.

| | | | | |
|-----------------|--|--------------------------------------|-------------|-------------|
| MSIG | To assist municipality to perform their functions and stabilise institutional and governance | Grant was used for intended purposes | 735 000 | 1 554 204 |
| BELGRADE | To assist LM's to perform their functions- certain portion has been transferred to Phongola municipality | Grant was used for intended purposes | 3 391 656 | 600 000 |
| DWAF | To subsidise water schemes owned by departments to municipalities | Grant was used for intended purposes | 26 680 400 | 71 857 333 |
| EQUITABLE SHARE | To finance the operation of the municipality | Grant was used for intended purposes | 127 541 093 | 127 541 093 |

Debt Management

The nature and extent of poverty in the district is negatively affecting the ability of the majority of our residents to pay for the services rendered. As a result, the value of outstanding debtors is increasing.

To reduce this outstanding balance, council has resorted to the strict implementation of the credit control and debt collection policy by installing controlled flow meters for the indigent consumers and the restriction of water supply for the non-indigent consumers.

Summary of Debtors by Customer Classification:

| | | |
|--------------------|-------------------|---------------------------|
| As at 30 June 2009 | Consumers | Industrial and Government |
| 0-30 Days Current | 995 805 | 517 531 |
| 31-60 Days | 844 005 | 602 817 |
| 61-90 Days | 645 846 | 335 715 |
| 91-120 Days | 1 319 457 | 425 817 |
| 121-365 Days | 17 028 410 | 2 125 841 |
| +365 Days | | |
| Total | 20 833 523 | 4 007 721 |

Creditors

Creditors are paid on monthly basis, and within the 30 days time limit set by the Municipal Finance Management Act.

Supply Chain Management

The primary objective of this section is to provide supply chain management which is fair, transparent, efficient, equitable, competitive and which ensures best value of money for the municipality and promotes local economic development.

Members of Bid Committees

Bid Specification

- Mr C Nel Chairperson
- Mr M Dladla
- Mr S Ngcobo
- Ms Z Ntombela
- Ms G Nene

| | |
|---|----|
| Number of meetings held during 2008/09 financial year | |
| Bid Specifications | 25 |
| Bid Evaluation | 23 |
| Bid Adjudication | 21 |

| | |
|-------------|-----------------|
| Chairperson | - Mr. SB Nkosi |
| | - Mr. MN Shandu |
| | - Mr. C Nel |
| | - Mr. TL Xaba |

Bid Adjudication

| | |
|-------------|-----------------|
| Chairperson | - Mr S Khumalo |
| | - Ms NS Mthembu |
| | - Ms Gwamanda |
| | - Mr S Landman |
| | - Ms N Hlengwa |

Bid Evaluation

CHAPTER 5: AUDITED FINANCIAL STATEMENTS AND RELATED FINANCIAL INFORMATION

As indicated earlier, the Zululand District Municipality received an unqualified report from the Auditor-General for the seventh consecutive year as at 30 June 2009. In the report a number of matters of non-compliance with laws and regulations were however raised by the Auditor-General and will be fully dealt with in 2009/2010.

Annexures:

Annexure A: The full report from the Auditor-General

Annexure B: The June 2009 Annual Financial Statements

Membership

The Zululand District Municipality has an Audit and Risk Management Committee set up in accordance with the prescripts of the Municipal Finance Management Act No. 56 of 2003, section 166. The Committee comprises of two independent members, who are not in the employ of the Zululand District Municipality, nor are they political office bearers.

The Chairperson of the Audit Committee is an independent person who is knowledgeable of the status of the position and has the requisite legal, business and leadership skills. The Committee operates in terms of written terms of reference approved by the municipality's Accounting Officer and Council's Executive Committee, which is in accordance with best practice.

Audit Committee members and attendance

The Committee performs its responsibilities as required in terms of the Municipal Finance Management Act (MFMA), as well as the code of Corporate Governance. The Audit Committee meets a minimum of four (4) times during a financial year. For the financial year ending 30 June 2009, the Committee has reviewed and/or advised on matters relating to:

The adequacy, reliability and accuracy of financial reporting and information;
The activities and effectiveness of internal audit function;
The accounting and auditing concerns identified as a result of the internal or external audits;
The effectiveness of the internal control systems;
Risk Management;
Compliance with the MFMA and other applicable legislation;
Performance Management; and
Reports on forensic investigations.

Internal Audit

The Zululand District Municipality has a system of Internal Audit under the control and direction of its Audit and Risk Committee. Based on the results of assurance work carried out by the Internal Audit unit, there are areas where the internal control systems have been identified as weak. The weaknesses in internal control systems have been brought to the attention of management to take corrective measures.

Performance Management

The municipality made significant changes to the organizational scorecard which was as a direct result of the changes in the applicable National Treasury regulations. The scorecard has also been revised to ensure alignment to the Integrated Development Plan (IDP) of the Municipality. Systems are being implemented to monitor organizational and individual performance.

ACTION PLAN TO ADDRESS AUDITOR - GENERAL QUERIES

In terms of Section 121 (3) (g) of the Municipal Finance Management Act, the municipality must include in the Annual Report "particulars of any corrective action taken or to be taken in response to issues raised in the audit report", therefore those particulars are supplied hereunder in the same numbering as in the audit report with their corrective measures.

9. Restatement of corresponding figures - Monthly reconciliation will be implemented.

12. The monthly reports to National Treasury on awards for contracts above R 100 000 are now submitted to National Treasury as and when the awards are made. Report to be submitted to Audit Committee by the Deputy Chief Financial Officer.

14.2 Quarterly management accounts will be performed and submitted to the Municipal Manager and the Executive Committee.

14.3 The Annual report for 2009 / 2010 will be scheduled.

14.6 Audit Committee is on schedule for complying with Section 166 (2).

14.7 A meeting was held between the Municipal Manager and the Internal Audit team to discuss non-performance. It has been mutually agreed that more visits will be done in 2009 / 2010.

14.11 A risk assessment is scheduled to take place in January 2010. The services of Provincial Treasury have been procured.

14.13 Prior year Audit findings have subsequently been resolved.

14.15 The PMS is under development.

14.16 A PMS Specialist is assisting the Council.

Annexure A
Auditor-General's Report
2008/09

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF ZULULAND DISTRICT MUNICIPALITY FOR
THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Zululand District Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 124 to 161.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating

- the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Standard of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Zululand District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Zululand District Municipality as at 30 June 2009 and its financial performance and cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter:

Restatement of corresponding figures

9. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of the municipality implementing new accounting policies and Standards of GRAP for the 2008/2009 financial year and changes to existing policies.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Material inconsistencies in information included in the annual report

10. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

11. The municipality provided supplementary information in the Annexure A, B, C, D, E1, E2 and F to the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information and other supplementary information set out on pages 124 to 161 do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly, I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act

12. The municipality did not submit monthly reports to National Treasury on awards for contracts above R100 000, as required by MFMA circular 34 of 28 June 2006, issued in terms of section 74(1) of the MFMA.

Governance framework

13. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

14. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

| No. | Matter | Y | N |
|--|---|--------------------------|---|
| Clear trail of supporting documentation that is easily available and provided in a timely manner | | | |
| 1. | No significant difficulties were experienced during the audit concerning delays or the availability of requested information. | <input type="checkbox"/> | |
| Quality of financial statements and related management information | | | |
| 2. | The financial statements were not subject to any material amendments resulting from the audit. | <input type="checkbox"/> | |
| 3. | The annual report was submitted for consideration prior to the tabling of the auditor's report. | <input type="checkbox"/> | |
| Timeliness of financial statements and management information | | | |
| 4. | The annual financial statements were submitted for auditing as per the legislated deadlines, as set out in section 126 of the MFMA. | <input type="checkbox"/> | |
| Availability of key officials during audit | | | |
| 5. | Key officials were available throughout the audit process. | <input type="checkbox"/> | |

Investigations

15. Key officials have been available throughout the audit, thus enabling the municipality to timeously provide a clear trail of supporting documents. However, weaknesses were identified as evidenced by numerous correcting adjustments in the amounts and disclosures in the financial statements provided for audit as well as the fact that the municipality did not develop and implement an effective system of risk management relating to financial reporting. Whilst overall leadership and supervision was effective.

| No. | Matter | Y | N |
|--|--|--------------------------|--------------------------|
| Development and compliance with risk management, effective internal control and governance practices | | | |
| 6. | Audit committee | | |
| | <ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. The audit committee operates in accordance with approved, written terms of reference. The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. | Internal audit | | |
| | <ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. The internal audit function operates in terms of an approved internal audit plan. The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. | There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management. | <input type="checkbox"/> | |
| 9. | There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations. | <input type="checkbox"/> | |
| 10. | The information systems were appropriate to facilitate the preparation of the financial statements. | <input type="checkbox"/> | |
| 11. | A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used, as set out in section 62(1)(c)(i) of the MFMA. | <input type="checkbox"/> | |
| 12. | Delegations of responsibility are in place, as set out in section 79 of the MFMA. | <input type="checkbox"/> | |
| Follow-up of audit findings | | | |
| 13. | The prior year audit findings have been substantially addressed. | <input type="checkbox"/> | |
| 14. | SCOPA/Oversight resolutions have been substantially implemented. | <input type="checkbox"/> | |
| Issues relating to the reporting of performance information | | | |
| 15. | The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete. | <input type="checkbox"/> | |
| 16. | Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information. | <input type="checkbox"/> | |
| 17. | A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Zululand District Municipality against its mandate, predetermined objectives, outputs, indicators and targets, as set out in section 68 of the MFMA. | <input type="checkbox"/> | |
| 18. | There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance. | <input type="checkbox"/> | |

16. An investigation is in progress regarding the alleged misappropriation of money at the district municipality's cash office in Nongoma.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

17. I have reviewed the performance information as set out on pages 20 to 54.

The accounting officer's responsibility for the performance information

18. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

19. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

20. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

Lack of effective, efficient and transparent systems and internal controls

regarding performance management

22. The Zululand District Municipality did not document and approve internal policies and procedures to address planning, monitoring and reporting processes, events pertaining to performance information and steps to improve performance with regard to those development priorities and objectives where performance targets were not met, as required by section 41(1)(d) of the MSA.

Content of integrated development plan

23. The integrated development plan (IDP) of the Zululand District Municipality did not include input and outcome indicators, in respect of each of the development priorities and objectives, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations of 2001.

Usefulness and reliability of reported performance information

24. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- **Relevance:** Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- **Reliability:** Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit finding relate to the above criteria:

25. The changes to development priorities/objectives, key performance indicators and targets to the approved 2008/2009 IDP were not reviewed and approved by council in terms of consistency, relevance and reliability in order to assess the usefulness and reliability of the information on the municipality's performance.

Reported performance information not reliable

Lack of appropriate information systems generating performance information

26. Sufficient appropriate audit evidence with regard to the reported performance information of the objectives could not be obtained, as the information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete actual performance information.

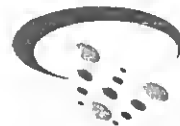
APPRECIATION

27. The assistance rendered by the staff of the Zululand District Municipality during the audit is sincerely appreciated.

Audited, General

Pietermaritzburg

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

ZULULAND DISTRICT MUNICIPALITY

for the year ended 30 June 2009

GENERAL INFORMATION

MEMBERS OF THE COUNCIL

| | |
|-----------------------------------|--------------------------|
| Mayor | Cllr V Z KaMagwaza Msihi |
| Speaker | Cllr N J Mjaja |
| Member of the Executive Committee | Cllr V O Mbuyisa |
| Member of the Executive Committee | Cllr B B Zwane |
| Member of the Executive Committee | Cllr P Ndlela |
| Member of the Executive Committee | Cllr S E Nkwananya |
| Member of the Executive Committee | Cllr J B Mavundia |
| Member | Cllr T R Bunge |
| Member | Cllr A B Lesala |
| Member | Cllr M M Kunene |
| Member | Cllr J B Ngema |
| Member | Cllr M M Mtungwa |
| Member | Cllr M A Shabangu |
| Member | Cllr S Z Buthezi |
| Member | Cllr P M Mishi |
| Member | Cllr N V Mbatha |
| Member | Cllr H S Ngwenya |
| Member | Cllr F L Buthezi |
| Member | Cllr B S Khanyile |
| Member | Cllr M Z Matambani |
| Member | Cllr M B Mabaso |
| Member | Cllr N E Zungu |
| Member | Cllr T B Lukhele |
| Member | Cllr S P S Mwehase |
| Member | Cllr K E Thabede |
| Member | Cllr J P Ngwenya |
| Member | Cllr J A Schneepers |
| Member | Cllr R B Mhlungu |
| Member | Cllr B A Mishi |
| Member | Cllr M E Ndawandwe |
| Member | Cllr E M Nxumalo |
| Member | Cllr M E Sishwili |
| Member | Cllr T M Zungu |
| Member | Cllr S Mlambo |

Municipal Manager

J.H. de Klerk

Chief Financial Officer

S B Nkosi

Grading of Local Authority

4

Auditors

Auditor-General South Africa

Bankers

ABSA Bank Limited

ZULULAND DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

General information (continued)

Registered Office: ZULULAND DISTRICT MUNICIPALITY

Physical address: B-400 GAGANE STREET
ULUNDI
3838

Postal address: PRIVATE BAG X76
ULUNDI
3838

Telephone number: 035 874 5500

Fax number: 035 874 5589/91

E-mail address: info@zulu.gov.za

ZULULAND DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

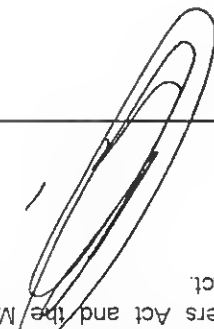
Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 39, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, as disclosed in note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Cooperative Governance and Traditional Affairs's determination in accordance with this Act.

Municipal Manager:

DATE 2009/11/30



ZULULAND DISTRICT MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2009

| Index | Page |
|---|-----------|
| Statement of Financial Position | 124 |
| Statement of Financial Performance | 125 |
| Statement of Changes in Net Assets | 126 |
| Cash Flow Statement | 127 |
| Accounting Policies | 128 - 135 |
| Notes to the Annual Financial Statements | 136 - 151 |
| Appendix A: Schedule of External Loans | 152 |
| Appendix B: Analysis of Property, Plant and Equipment | 153 - 156 |
| Appendix C: Segmental Analysis of Property, Plant and Equipment | 157 |
| Appendix D: Segmental Statement of Financial Performance | 158 |
| Appendix E1: Actual versus budget (Revenue and Expenditure) | 159 |
| Appendix E2: Actual versus budget (Property, Plant and Equipment) | 160 |
| Appendix F: Grants & Subsidies Received | 161 |